



THOMAS J. VILSACK, GOVERNOR
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DEPARTMENT OF HUMAN SERVICES-
JESSIE K. RASMUSSEN, DIRECTOR

September 19, 2001

The Honorable David Millage
House of Representatives
3910 Aspen Hills Dr.
Bettendorf, IA 52722

Dear Representative Millage,

At the Fiscal Committee meeting on August 29th you asked for some information on the percentages of Iowans enrolled in Medicaid who receive coverage under an HMO and an explanation for why those numbers might be low.

In August 2001, there were 60,394 Iowans enrolled in an HMO out of 233,427 (or 25.87%) who are eligible for Medicaid assistance. The State Plan Amendment, which the medical Managed Health Care (MHC) program operates under, specifically excludes recipients who are:

- medically needy
- over the age of 65
- under the age of 21 in psychiatric institutions
- supplementary security income (SSI) related case members
- refugee medical assistance program who are subject to spenddown
- in the process of automatic eligibility redetermination
- foster care and subsidized adoption related case members
- Medicare beneficiaries (dual eligibles)
- pregnant women
- receiving services from a Title V provider
- Native American or Alaskan natives

The largest group of excluded eligibles would be SSI recipients. We have considered including this population in the medical MHC program in the past. A steering committee was formed with provider, HMO and consumer participation. The reasons for not including this population include the complex health needs where the primary care giver may well be a specialist and not a primary care provider. HMOs have expressed an unwillingness to accept this population.

The HMO option is available in 43 of the 93 counties where medical managed care is mandatory. In those 93 counties there are 132,964 Iowans eligible for HMO or MediPASS. Of those, 111,911 (or 84.1%) are enrolled in either the HMO (60,394 Iowans) or MediPASS (51,517 Iowans) programs. Those who are not currently enrolled are because there is up to 45 days in which the enrollment process is taking place or they are listed with retroactive eligibility.

There are some barriers to enrolling more Medicaid eligible Iowans in an HMO. All HMO's have stated that theirs is a business whereby volume equates to efficiencies and economies of scale. The number of potential enrollees and the availability of appropriate numbers of providers are that which has driven the addition of counties where an HMO is willing to participate. For HMO rate setting the state is divided into six geographic regions. Four years ago the Department contemplated requiring that an HMO would participate in all counties within the region or none at all. The response from almost all of the HMO's is that they would simply withdraw from the program rather than be forced to meet this requirement.

Such a rule would require, for example, that an HMO have a contracted hospital within the county. With many rural counties having only one hospital, it would mean being "at the mercy" of that facility in the contracting process. An HMO may pay slightly more than another insurer only if it can direct the patient to a contracted facility. But if the facility sets the rate it is to be paid and the HMO cannot comply, it would mean the HMO could not participate in the region.

HMO capitation rates are set according to the upper payment limit (UPL) for Medicaid. The UPL is the cost for providing the service under regular Medicaid. The capitation rate is 2% less than the UPL. While it makes sense that HMOs can control costs below that 2% threshold, it should also be remembered that Medicaid rates are considerably lower than those paid by commercial insurers. There isn't much margin with which to work in dealing with Medicaid HMO enrollment and profitability. This isn't a point lost on HMOs and they are constantly evaluating their continued participation. New federal managed care regulations which may go into effect in August of 2002 may remove the UPL requirement and allow states to pay according to commercial rates. That, however, would require an allocation of significant resources from the legislature.

I hope this information has been helpful in responding to your questions. If not, please feel free to contact me at 515-281-4387 regarding this, or any other matter.

Sincerely,



Kate Walton

Legislative Liaison

cc: Sue Lerdal, LFB
Sam Leto, LFB